

**FINANCIAL MANAGEMENT:
Audit of the Bureau of Engraving and Printing's
Fiscal Year 2000
Financial Statements**

OIG-01-067

April 30, 2001



Office of Inspector General

The Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

MEMORANDUM FOR THOMAS A. FERGUSON, DIRECTOR, BUREAU OF
ENGRAVING AND PRINTING

FROM: William H. Pugh *William H. Pugh*
Deputy Assistant Inspector General for
Financial Management and Information
Technology Audits

SUBJECT: Audit of the Bureau of Engraving and
Printing's Fiscal Year 2000 Financial
Statements

I am pleased to transmit the attached report, Audit of the Bureau of Engraving and Printing's (BEP) Fiscal Year (FY) 2000 Financial Statements. The firm of Ernst & Young LLP, an Independent Public Accountant (IPA) audited BEP's financial statements. The IPA issued the following reports:

- Report of Independent Auditors;
- Report of Independent Auditors on the Internal Control Over Financial Reporting; and;
- Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*.

The IPA rendered an unqualified opinion on BEP's FY 2000 financial Statements. The IPA's report on internal controls disclosed no matters involving internal control over financial reporting and its operation that were considered to be material weaknesses. In addition, the IPA's report on compliance with laws and regulations disclosed no instances of noncompliance.

The IPA issued a management letter dated November 17, 2000, discussing other matters identified during the audit involving internal control over financial reporting, which were not required to be included in the audit report.

My staff monitored the conduct of the audit and performed a quality control review of the IPA's working papers. The

audit work was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Thomas A. Moschetto, Director, Financial Management Audits at (202) 927-5074.

Attachment

Department of the Treasury

Bureau of Engraving and Printing

Accountability Report

Fiscal Year 2000

**DEPARTMENT OF THE TREASURY
BUREAU OF ENGRAVING AND PRINTING
CHIEF FINANCIAL OFFICER
ANNUAL REPORT
2000**

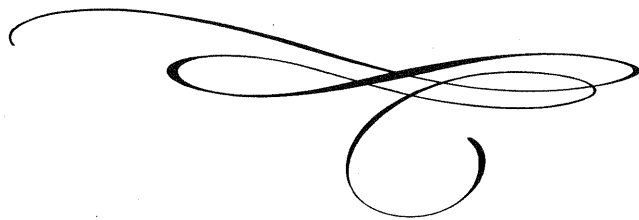
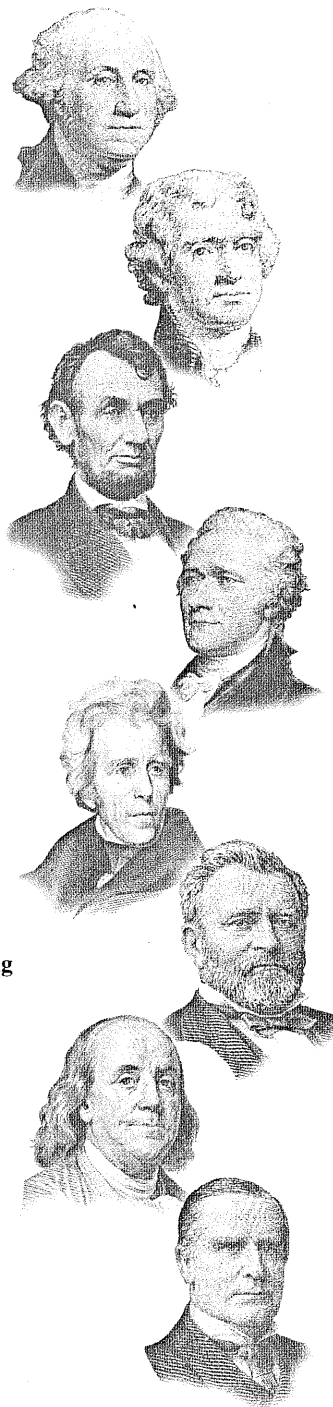


Table of Contents

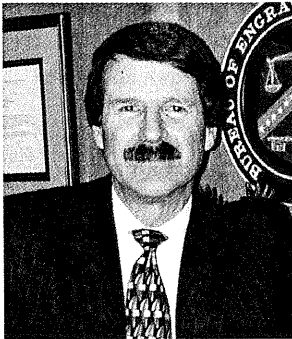
i	Message from Director
ii	Message from CFO
1	Highlights of the Year
3	Profile of the Bureau
9	FMFIA Plans and Accomplishments
11	Custody of Assets and Summary of OIG Audits
13	Strategic Plan
15	Customer Service Performance Measures
17	Program Performance Measures
21	Management Discussion and Analysis
24	Report of Management on Internal Control Over Financial Reporting
25	Report of Independent Auditors on the Internal Control Over Financial Reporting
26	Auditor Report on Financial Statements
27	Financial Statements
30	Notes to Financial Statements
38	Auditor Report on Compliance and on Internal Control Over Financial Reporting
40	Auditor Report on Other Financial Information
41	Product Line Statements of Operations
43	Prompt Payment
44	Supplemental Information





*Treasurer of the United States, Mary Ellen Withrow (center),
Dawn Haley (left) and Antoinette Banks (right)
with the Crystal Apple Award, which was presented to the Bureau
in recognition of the new public sales products that were introduced at the
New York Premium Incentive Show.*

Message from the Director




This past year has been filled with challenges and opportunities for the Bureau of Engraving and Printing. It marked the return of normal currency production schedules for the Bureau after record-breaking production in 1999 because of Y2K concerns. During 2000, the Bureau delivered nine billion Federal Reserve Notes and 17.5 billion postage stamps to the Federal Reserve System and the U.S. Postal Service, respectively. Both the currency and postage stamp orders were completed on schedule and under budget.

In May, the Secretary of the Treasury, Lawrence H. Summers, and the Treasurer of the United States, Mary Ellen Withrow, unveiled redesigned \$5 and \$10 notes, which bear their signatures. This marked the completion of the first redesign of U.S. currency in more than 70 years.

We can look back on 2000 with pride and an overall sense of accomplishment. As presented in this report, the Bureau performed well in all major program areas, contributing to favorable financial results. Continued emphasis on cost control allowed the Bureau to reduce overtime costs to their lowest level in over 15 years while employment remained virtually unchanged from last year. Also, I am pleased to report that, as a result of preparation and planning, no significant Y2K issues were noted at the Bureau.

As we look forward to 2001, a number of strategic initiatives have been identified. They include a focus on quality (the Bureau is seeking ISO 9001 certification of its currency quality management system), organizational improvement, safety, environmental compliance, facility upgrades, new equipment, and counterfeit deterrence (through the development of the next generation (NexGen) of currency designs). Additional advanced counterfeit deterrent features are being tested to maintain the integrity of the Nation's currency. Investment in people and products is at the core of these initiatives. These strategic goals can only be achieved with a highly qualified, motivated workforce that has every access to, and expertise with, state-of-the-art equipment and cutting edge technology.

The Bureau's dedicated and results-driven workforce is its most important resource, and I would like to express my personal appreciation to all the employees at the Bureau for their outstanding work throughout the year. Together we will ensure that the Bureau remains the world's premier securities printer, and that U.S. currency remains the de facto currency of the world.


Thomas A. Ferguson
Director

Message from the Chief Financial Officer



I am pleased to present the Bureau of Engraving and Printing Chief Financial Officer Annual Report for 2000 as required by the Government Management Reform Act. The Chief Financial Officer Annual Report is a consolidated accountability report in support of the Department of the Treasury's efforts to streamline reporting.

This report includes audited financial statements, program performance measures, Federal Managers' Financial Integrity Act (FMFIA) plans and accomplishments, a summary of Office of Inspector General reports and recommendations, Prompt Payment Act data, a discussion of custodial assets, and supplemental schedules and financial data.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 16th consecutive year, the Bureau received an unqualified opinion on its financial statements from an independent, certified public accounting firm. In addition, the Bureau had no FMFIA material weaknesses or material instances of nonconformance at the end of 2000. The annual audit and FMFIA reviews help to ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision making.

In 2000, the Bureau delivered nine billion Federal Reserve Notes and 17.5 billion postage stamps to the Federal Reserve System and the U.S. Postal Service, respectively. This resulted in revenue of \$476 million and an excess of revenue over expenses of \$15 million.

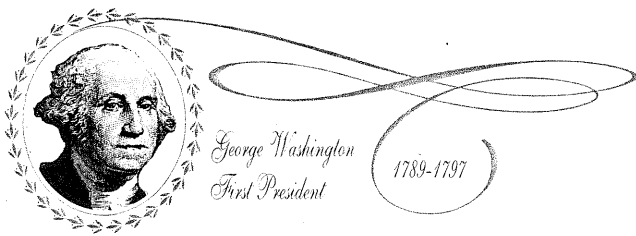
Favorable cost performance in all major program areas contributed to the Bureau's financial results in 2000. Direct manufacturing costs for the currency and postage stamp programs were below standard. Currency manufacturing costs were lower than expected, in part, due to the implementation of several employee suggestions that improved ink utilization. Postage stamp costs benefited from improvements in productivity and significantly reduced spoilage. Overall, employment was relatively unchanged from the previous year, although overtime costs were reduced to their lowest levels in more than 15 years. Cost savings realized in the postage stamp program this year allowed the Bureau to reduce billing rates to the U.S. Postal Service for postage stamps for the second consecutive year in 2001. These favorable financial results are attributable to employee innovation and a Bureau-wide focus on performance goals and cost-effectiveness.

Effective communication is critical to the continued success of the Bureau. In an effort to significantly improve this element, the Bureau made substantial improvements to its Intranet during 2000. The Bureau's Intranet site provides a one-stop information center to employees. Whether it's announcing open season on employee benefit programs, publishing the Strategic Plan, or providing updates on the ISO 9001 certification effort, the Intranet is an effective, timely communication tool.

The Bureau will continue to focus on its commitment to product quality and employee training in order to meet the needs of the American public. The Bureau has positioned itself to meet these needs both from an operational and financial perspective. The Bureau has dedicated the financial resources necessary to invest in employees to maintain a talented and up-to-date workforce, while supporting an aggressive capital investment strategy to ensure product quality, enhance counterfeit deterrence, provide a safe, secure work environment and improve the cost effectiveness and productivity of the manufacturing processes.

A handwritten signature in cursive script that reads "Gregory D. Carper".

Gregory D. Carper
Associate Director
(Chief Financial Officer)



Highlights of the Year

During 2000, the Bureau of Engraving and Printing issued redesigned \$10 and \$5 notes, which included many of the same family of advanced counterfeit deterrent features found in the redesigned \$100, \$50 and \$20 notes issued in previous years. In addition to the new features, these notes included the signature of the new Secretary of the Treasury, Lawrence H. Summers.

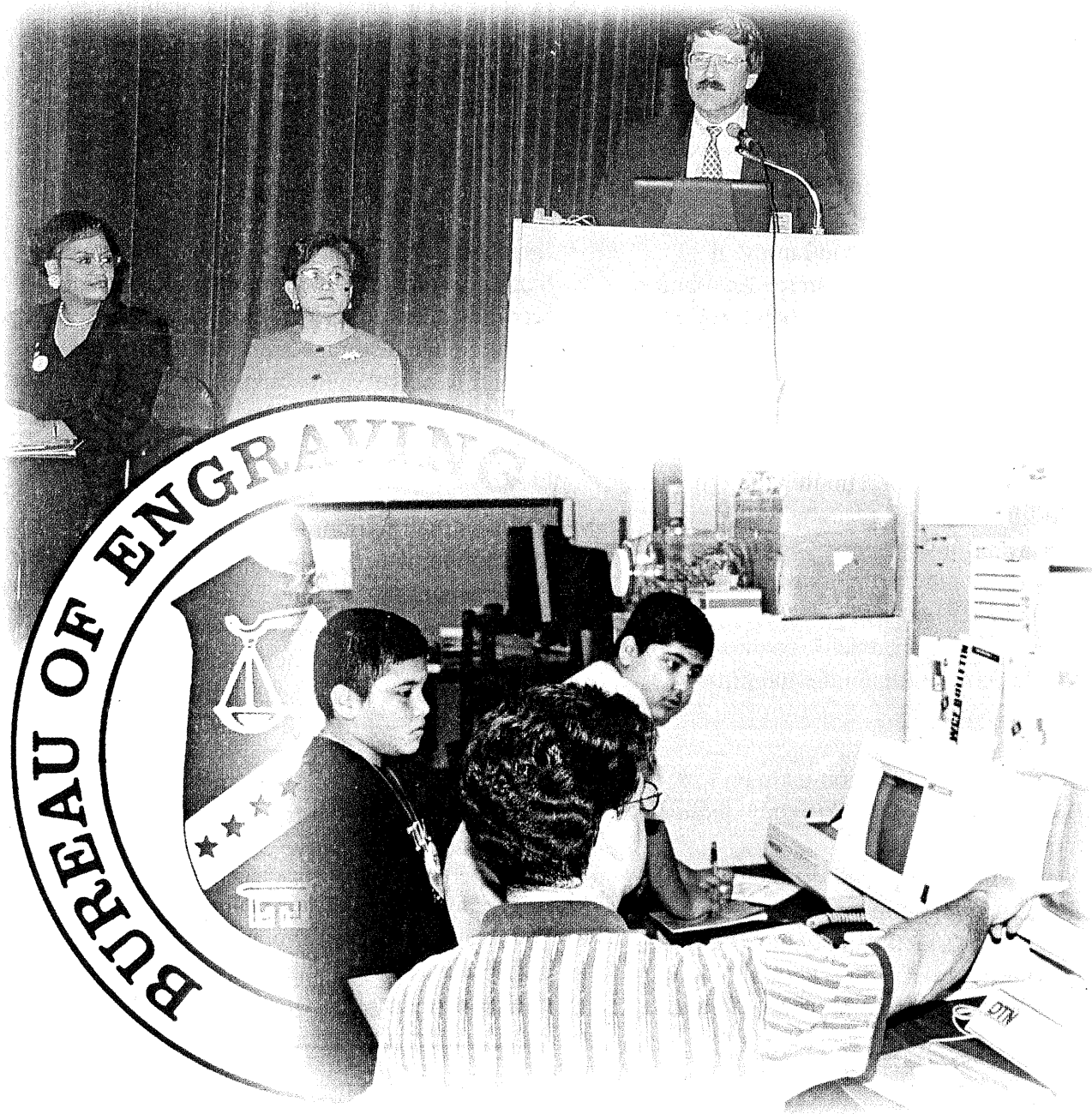
Additional financial and operational highlights for fiscal year 2000 include:

- Conducting developmental work on the next generation (NexGen) currency design, incorporating additional advance counterfeit deterrent features to maintain the integrity of the Nation's currency;
- Establishing an implementation team to seek ISO 9001 certification of the currency quality management system;
- Installing two new intaglio printing presses in the Washington, DC facility, which included the installation of a more efficient thermal oxidizer reducing volatile organic compounds (VOCs) in the air;
- Initiating expansion of the Western Currency Facility in Fort Worth, TX to provide additional production space and a public tour;
- Commencing a plate printers' apprenticeship program in both the Washington and Fort Worth facilities;

- Installing a fiber optic network throughout the Bureau's Washington plant;
- Continuing significant capital investment projects to upgrade the Washington, DC facility;
- Producing currency and postage stamps below standard cost with lower than anticipated spoilage;
- Updating the Strategic Plan. The plan is available for public viewing on www.moneyfactory.com/welcome.htm;
- Expanding the Product Security Monitoring Station throughout the Fort Worth Facility to provide enhanced, closed-circuit surveillance of production and storage areas, including the Federal Reserve Vault shipping bays;
- Successfully transitioning all IT systems into the year 2000 (Y2K);
- Creating the Environment and Safety Directorate, which includes the Office of Environment, Safety, and Occupational Health Programs and the Office of Energy and Recycling, to provide increased organizational emphasis on environmental, safety and energy issues;
- Introducing new public sales products, which received three Crystal Apple Awards at the New York Premium Incentive Show;
- Receiving an unqualified opinion on Bureau financial statements from an independent certified public accounting firm for the 16th consecutive year.

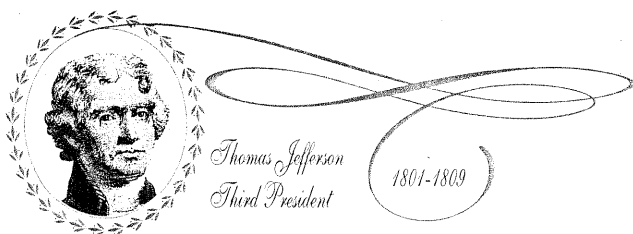
(All Dollars in Millions)

	2000	1999
Sales Revenue	\$476.1	\$567.4
Capital Investment	\$35.2	\$27.8
General and Administrative Costs	\$37.8	\$34.1
Research and Development	\$6.2	\$5.8
Total Assets	\$697.0	\$669.9
Excess of Revenue over Expenses	\$15.4	\$38.0
Federal Reserve Notes Delivered (Billions)	9.0	11.4
Postage Stamps Delivered (Billions)	17.5	19.0



(Above) Bureau Director, Tom Ferguson, addressing employees at the Ethnic Heritage Celebration.

(Below) Students from local area schools participate in the Career Day Fair sponsored by the Western Currency Facility.



Profile of the Bureau of Engraving and Printing

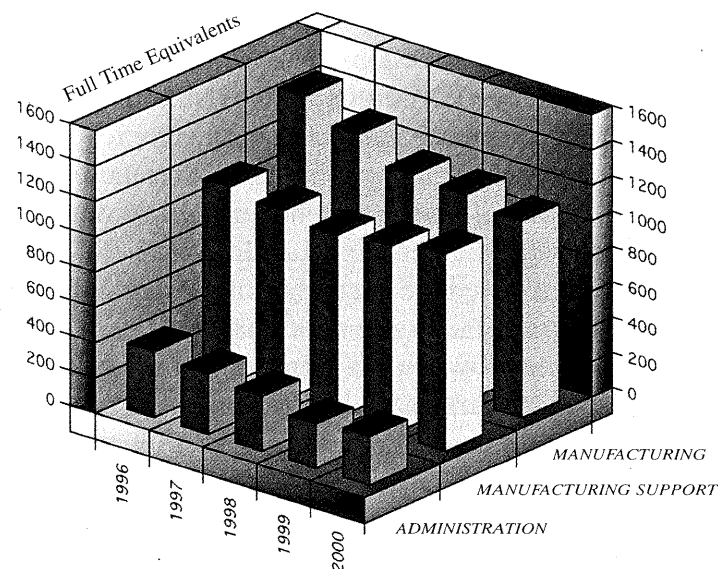
The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves.

The Bureau of Engraving and Printing operates on the basis of authority conferred upon the Secretary of the Treasury by 31 U.S.C. 321(a)(4) to engrave and print currency and other security documents. Since 1950, Bureau operations have been financed by means of a revolving fund in accordance with Public Law 81-656. This fund is reimbursed through product sales for direct and indirect costs of operations, including administrative expenses. In 1977, Public Law 95-81 authorized the Bureau to include an amount sufficient to fund capital investment and to meet working capital requirements in the prices charged for products. This eliminated the need for appropriations from Congress.

The Bureau produces U.S. currency, U.S. postage stamps, and many other security documents issued by the Federal Government. Other activities at the Bureau include engraving plates and dies; manufacturing certain inks used to print security products; purchasing materials, supplies and equipment; and storing and delivering products in accordance with requirements of customers. In addition, the Bureau provides technical assistance and advice to other Federal agencies in the design and production of documents, which, because of their innate value or other characteristics, require

counterfeit deterrents. Procedures followed by the Federal Reserve Banks to cancel, verify, destroy and account for unfit currency are prescribed

Staffing (FTE) by Function



by the Bureau in the “*Treasury Currency Verification and Destruction Manual*.” Compliance with these procedures is monitored by the Bureau. The Bureau also redeems damaged or mutilated currency for the public. Currency examiners reconstruct burned, buried or otherwise damaged paper currency and the Bureau reimburses the public for the reconstructed value.

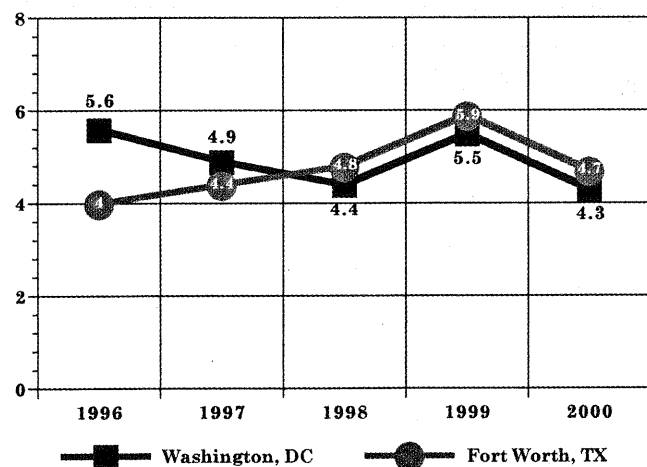
The Bureau has a strong commitment to community service. Through its Adopt-a-School Program and related school partnership projects, Bureau personnel mentor and tutor students from Washington, DC and Fort Worth, TX schools to help prepare them for careers in today’s high technology workplace. The Bureau also has an award winning Community Outreach Program that provides an opportunity for employees to support the communities where they live and work. As part of this outreach program, the Western Currency Facility personnel donated 110 bicycles with helmets to the U.S. Marines’ Toys for Tots campaign. This donation was funded by an employee-initiated aluminum can recycling effort and individual donations.

The Bureau occupies three government-owned facilities. The Main and Annex buildings, located in Washington, DC, produce Federal Reserve Notes, postage stamps and other security products. The Western Currency Facility, located in Fort Worth, Texas, produces Federal Reserve Notes. The Main building became operational in 1914, the Annex building in 1938, and the Western Currency Facility in 1991. The Fort Worth facility increased production capacity to meet the Nation's growing demand for currency, while providing a second currency manufacturing site to enhance emergency preparedness. In 1997, the Bureau assessed the feasibility of replacing the Washington, DC facility, and ultimately determined that it would be more cost effective to invest in the modernization of the present buildings and expand the Fort Worth facility.

In addition to housing production facilities, the Main building in Washington, DC offers a free tour of the currency operations to the general public. This tour is taken every year by over one-half million visitors. As part of the expansion of the Fort Worth facility, the Bureau plans to incorporate a public tour with a Viewing Gallery and Visitors' Center. This will offer the public an opportunity to view currency manufacturing in Fort Worth, TX. The free tour of the Washington, DC facility is one of the most popular tourist attractions in the city. It includes a Visitors' Center that sells uncut sheets of currency, numismatic currency sets, and other collectibles

Currency Production by Facility

Billions of Notes



and engravings. In addition to the on-site sales center, sales are available through mail order and through the Bureau's Internet site, www.moneyfactory.com.

Manufacturing

During 2000, the Bureau delivered just over nine billion Federal Reserve Notes to the Federal Reserve System. The Washington, DC and Fort Worth Facilities delivered 4.3 billion and 4.7 billion notes, respectively. The 2000 order marked a return to normal currency production schedules after record-breaking currency demand in 1999 from the Federal Reserve in preparation for Y2K. For 2001, the Federal Reserve System has ordered eight billion Federal Reserve Notes.

The release of the redesigned \$5 and \$10 notes in 2000 marked the introduction of the final notes in the first new currency design series in over 70 years. All of the redesigned notes incorporate advanced counterfeit deterrent features to thwart technological advances available to counterfeiters and maintain the integrity of the Nation's currency. No design changes are planned for \$1 or \$2 notes. In addition to the anti-counterfeit features, the redesigned notes include enlarged numerals to aid the visually impaired.

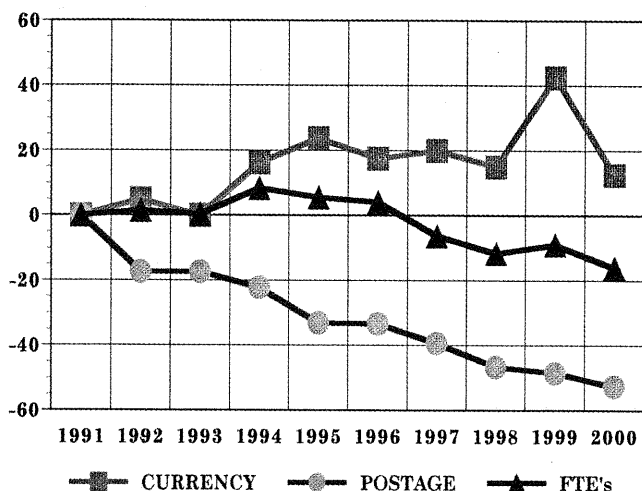
One of the Bureau's strategic goals is to stay ahead of the technology curve with respect to ensuring the integrity of the Nation's currency. The Securities Technology Institute (STI) has been established by the Bureau to develop, test and evaluate new counterfeit deterrent features for use in United States currency and other security documents. The Bureau is continuing to procure new printing equipment to develop and test these additional advanced counterfeit deterrent features for incorporation into the next generation (NexGen) currency design.

As part of continuing efforts to improve product quality and customer satisfaction, the Bureau is seeking certification of its currency quality management system under the ISO (International

Organization for Standards) 9001 Standards. The pursuit of this internationally recognized and accepted certification reaffirms the Bureau's commitment to quality.

Program and Staffing (FTE) Changes

Percentage change from base year



The Bureau delivered over 17.5 billion postage stamps to the U.S. Postal Service in 2000. As the use of e-mail and electronic bill paying continue to expand, demand for postage stamps is expected to continue to decrease, as it has for the last decade. For 2001, the U.S. Postal Service has ordered 15 billion stamps from the Bureau.

The Bureau is continuing to phase out older currency production equipment and replace it with state-of-the-art technology to enhance production capabilities and improve productivity. Over the past two years, the Bureau installed four electronic currency inspection systems, two in each facility. Two new intaglio currency printing presses and an electronic stamp inspection system were also installed in the Washington facility this year. One of the goals in the updated Strategic Plan is to develop equipment replacement plans for the Washington and Fort Worth facilities. With these replacement plans, the Bureau will continue to invest in new technology, better plan for capital expenditures, and reduce maintenance costs through timely retirement of older equipment.

Environmental and Safety

The Bureau centralized its environmental and safety efforts in 2000 with the establishment of a new organizational directorate, Environment and Safety. This refocused the Bureau's commitment to environmental compliance, occupational safety and energy efficiency. Several noteworthy accomplishments in these areas include the installation of a thermal oxidizer in Washington to remove volatile organic compounds (VOCs) from the air that is 75% more efficient, the purchase and installation of defibrillators for emergency use in case of cardiac arrest, and the implementation of new pedestrian and forklift safety measures.

The Western Currency Facility, in coordination with the Environmental Protection Agency, installed a new ducting system and two high-efficiency fume scrubbers to reduce emissions and recycle recovered chromic acid, thereby reducing hazardous waste disposal costs. In an effort to reduce on-the-job injuries and ergonomic problems, the Western Currency facility also began testing an automated sheet separator for use in currency. After printing and drying, currency sheets need to be separated (jogged) from each other before additional processing can occur. The new sheet separator automates this process and eliminates the concomitant stress and strain placed on employees' wrists, forearms and shoulders during manual jogging.

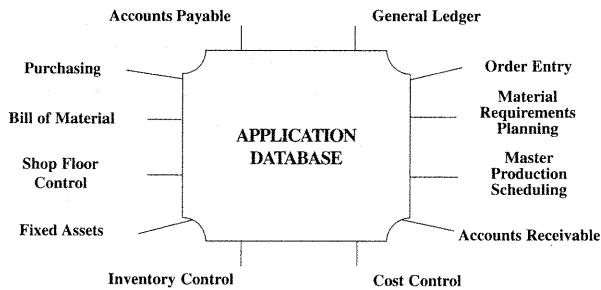
Information Technology (IT)

The Bureau of Engraving and Printing Management Information System (BEPMIS) is an on-line, real-time integrated enterprise resource planning system. BEPMIS, which maintains financial and manufacturing information, also ensures product accountability at Bureau production facilities. As a result of extensive testing throughout 1999, the Bureau encountered no significant Y2K problems in its IT systems.

As a part of the Y2K preparation efforts, the Bureau replaced or upgraded over 1,500 personal

computers (PCs). The older hardware was donated to local school systems as part of the community outreach program. In addition to the PC replacement initiative, the Bureau completed a major upgrade to its local area network (LAN) infrastructure. In June 2000, the Washington facility LAN was completed and interconnected

Bureau of Engraving and Printing Enterprise Resource Planning System



through a fiber optic system. A similar upgrade is occurring at the Western Currency Facility. The Bureau also made significant additions and improvements to its Intranet website, "InSite," during 2000. Employees now have access to InSite through their desktop PCs or touch-screen

kiosks located in common areas throughout the Bureau. InSite has proven to be an excellent tool for timely internal communication.

Organization

The Bureau's executive structure includes the Bureau Director, Deputy Director, five Associate Directors, and Chief Counsel. As noted previously, a new Associate Director (Environment and Safety) position was created and filled this year in an effort to focus efforts to ensure and enhance environmental compliance, occupational safety and energy efficiency at the Bureau. The executive committee structure includes an Executive Committee, the Capital Investment Committee, the Information Resource Management Committee and various planning committees and subcommittees. The planning and subcommittees are composed of a cross-section of senior and mid-level managers representing diverse organizational units. By cutting across organizational lines, these groups serve to promote effective communication and participative pro-active management.



Connie Northington utilizes one of the many touch-screen kiosks that enable all employees to have access to the Bureau's Intranet site.

EXECUTIVE ORGANIZATIONAL STRUCTURE

**THOMAS A. FERGURSON
DIRECTOR**



BUREAU MISSION

The mission of the Bureau of Engraving and Printing is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves.

**THOMAS C. HARRIS
DEPUTY DIRECTOR**



BUREAU VISION

The Bureau of Engraving and Printing is a world-class organization that is "state of the art" in all of its people, products and services. It is a flexible, nimble organization that can respond to the constant forces of change. It believes in and practices continuous improvement, thereby upgrading current processes and creating exciting, competitive new products and services.

**WILLIAM W. WILLS
ASSOCIATE DIRECTOR
(CHIEF OPERATING OFFICER)**



The mission of the COO Directorate is to assure the manufacturing of all government security documents in a cost-effective and efficient manner that satisfies the needs of the customer, and to provide a safe and secure working environment for employees in both manufacturing facilities.

**GREGORY D. CARPER
ASSOCIATE DIRECTOR
(CHIEF FINANCIAL OFFICER)**



The mission of the CFO Directorate is to maintain the integrity of the Bureau's revolving fund, provide the information technology and financial resources necessary to meet customer requirements, and oversee management control functions and the mutilated currency redemption program.

**JOEL C. TAUB
ASSOCIATE DIRECTOR
(MANAGEMENT)**



The mission of the Management Directorate is to provide the highest quality Security, Human Resources, Labor Relations, Procurement and Administrative Services in support of the overall Bureau mission.

**CARLA F. KIDWELL
ASSOCIATE DIRECTOR
(TECHNOLOGY)**



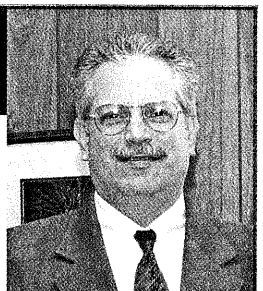
The mission of the Technology Directorate is to support the production of United States currency, postage stamps, and other government securities by incorporating new covert features that prevent counterfeiting, by developing new production processes that enhance the quality and production of securities, by providing technical support to the production process, and by providing facility support and maintenance.

**WILLIAM H. GILLERS
ASSOCIATE DIRECTOR
(ENVIRONMENT AND SAFETY)**



The mission of the Environment and Safety Directorate is to establish and implement Bureau-wide policy in environmental systems, occupational safety and health, energy and recycling, and regulatory compliance.

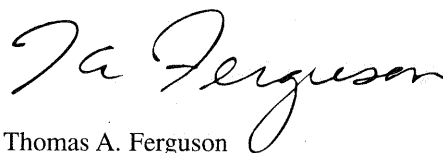
**CARROL H. KINSEY, JR.
CHIEF COUNSEL**



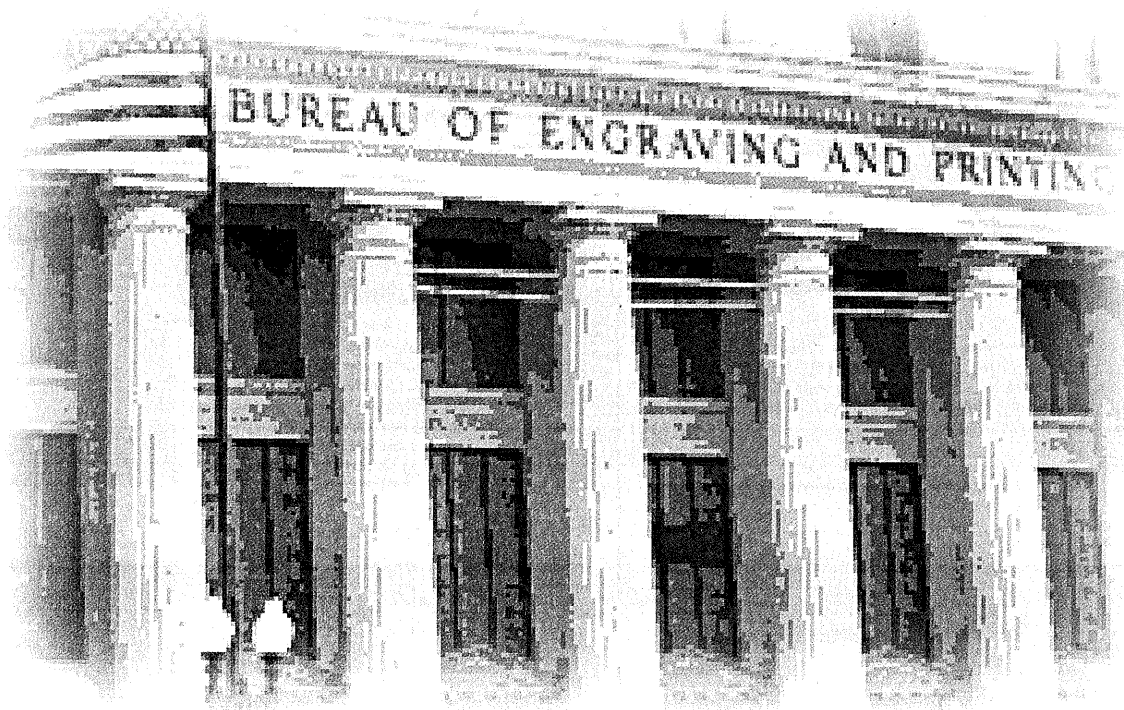
The mission of the Office of the Chief Counsel is to provide the highest quality legal services in support of the overall Bureau mission.

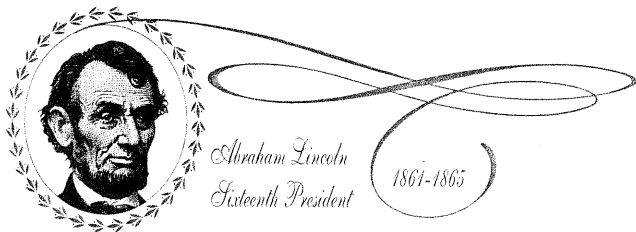
Assurance Statement Fiscal Year 2000

As required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Bureau of Engraving and Printing has evaluated both its management controls and financial management systems for fiscal year 2000. The results of these evaluations provided reasonable assurance that the management systems (Section 2) and the financial management systems (Section 4) are in overall compliance with standards prescribed by the Comptroller General of the United States and guidance issued by the Office of Management and Budget. In addition, the Bureau has no instances of material management control weaknesses; no material nonconformances; and, no material management control weaknesses or material nonconformances outstanding as of September 30, 2000. Also, based on Office of Management and Budget (OMB) guidance, OMB Bulletin 01-02 (Audit Requirements for Federal Financial Statements), the Bureau can state that it is in substantial compliance with the applicable provisions of the Federal Financial Management Improvement Act of 1996.



Thomas A. Ferguson
Director
Bureau of Engraving and Printing





Federal Managers' Financial Integrity Act Plans and Accomplishments

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 mandated that agencies perform regular evaluations of management controls and financial management systems to protect against fraud, waste, and abuse. The subsequent passage of the Chief Financial Officers Act in 1990 and the Federal Financial Management Improvement Act in 1996 continued to increase the government's management control requirements.

The Bureau has a history of strong management controls and an aggressive monitoring program. Key elements of this program include comprehensive financial management controls, personnel security controls, production and quality controls, computer security and information resources management programs, and strong physical security and product accountability functions to safeguard products and assets. The Bureau's Strategic Plan reflects this emphasis. Security, accountability, and resource management are major strategic goals. Specific targets include: meeting the goal for the product shipment discrepancy rate, maintaining zero tolerance for product accountability procedure violations, ensuring that product accountability is consistently monitored and verified, ensuring the Bureau's capability to provide reliable and timely financial information for executives and program managers, improving the productivity and effectiveness of financial systems, and enhancing

computer security to protect the integrity, confidentiality, and availability of information and systems.

The Bureau's Compliance Review Team (CRT) promotes compliance with Bureau operating policies and procedures. The CRT performs unannounced reviews in production and storage areas that are in custody of security items. During 2000, the CRT performed 80 unannounced reviews. The results of the reviews were reported to Office Chiefs, as well as the supervisors and managers responsible for enforcing the policies and procedures and implementing the corrective actions.

To further enhance currency accountability, the Office of Management Control (OMC) developed detailed accountability procedures for currency printing and processing in 1999. These procedures are much more detailed than previously existing procedures and provide currency managers and supervisors with greater control and accountability over their operations. In 2000, OMC personnel began performing conformance reviews utilizing the new procedures.

In support of the Bureau's pursuit of International Organization for Standards (ISO) 9001 certification for the currency quality management system, OMC personnel completed Quality Management System Auditor training. OMC personnel have performed a documentation review of proposed quality procedures, and they are currently conducting internal quality audits throughout the Bureau.

An Internal Control Awareness Program and Flash Reports to executives and managers regarding outstanding corrective actions are used to promote the visibility and understanding of management control issues, objectives and requirements. OMC conducts additional specific projects to strengthen the Bureau's internal controls, ensure compliance with existing policies and procedures, and safeguard Bureau assets.

The financial statements and annual audit are important elements in the stewardship of the Bureau's revolving fund. For the 16th consecutive year, the Bureau has received an unqualified opinion on its financial statements from an independent, certified public accounting firm. The annual audit and FMFIA review process help ensure the integrity of the revolving fund and the reliability of financial data used for managerial decision making.

The Computer Systems Security Division (CSSD) provides overall computer security administration

for the Washington, DC facility and the Western Currency Facility. The CSSD provides policies, procedures, guidance and technical advice to Bureau senior management regarding computer security issues. In keeping with today's new information technology requirement for strong internal controls, the Division is addressing such issues as public key infrastructure, digital signatures, and encrypted telecommunications. During 2001, CSSD will conduct vulnerability and risk assessments of the Bureau's management information system.

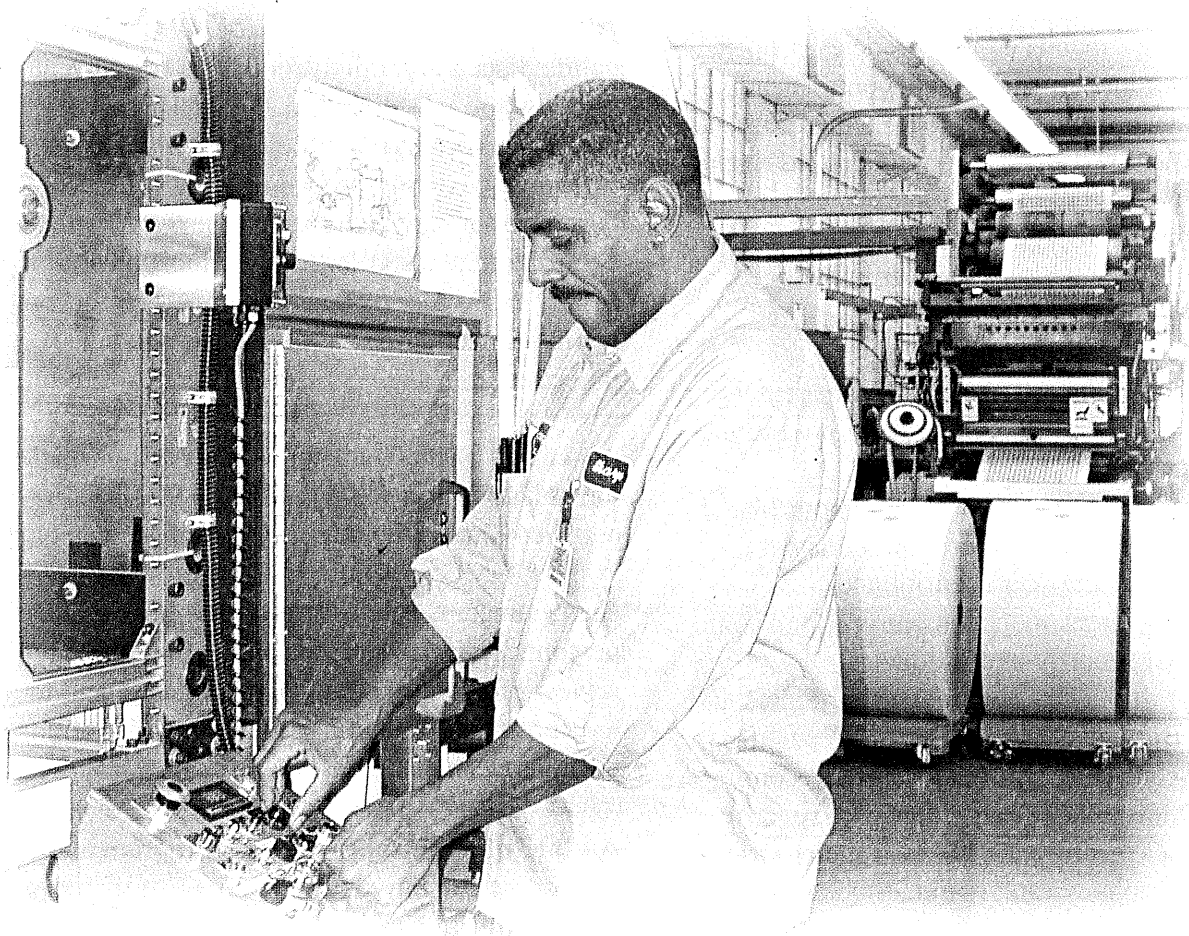
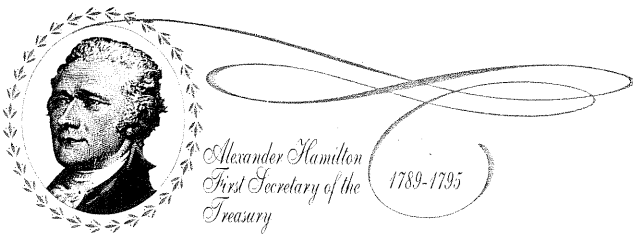


Plate Printer Larry Clark adjusts one of the electronic stamp inspection machines utilized by the Bureau.



Custody of Assets

In addition to the main-line production of currency and postage stamps, the Bureau has many high-value items that are used for various purposes, such as research, product testing and historical reference. Consequently, the Bureau of Engraving and Printing has a unique fiduciary responsibility to the American public with respect to the custody and safeguarding of its assets and high-value items.

Currency products and other items used in test, experimental, research and other off-line activities are normally expensed immediately and are not carried as assets in the Bureau's financial statements. While the costs expensed may be immaterial to the financial statements, many of these items have high intrinsic value. Therefore, the Bureau ensures that adequate controls are in place to properly safeguard these items. Although the Bureau does not hold title to any land or facilities, it maintains custodial control over the buildings occupied in Washington, DC and Fort Worth, TX. In 1999, the Bureau began a multi-year project to substantially renovate the buildings in Washington, DC. This renovation includes roof and window replacement, transformer replacement and power upgrades, as well as significant maintenance to the buildings' exteriors and ventilation systems.

The Bureau has display areas at each of its facilities and maintains historical collections at its headquarters in Washington, DC. The displays and historical collections include valuable artifacts related to currency and postage stamp operations, as well as other securities produced by the Bureau. While these collections are not included in the inventory balances as reported in the financial statements, appropriate custodial records and controls are maintained. Physical inventories are

performed regularly to ensure accountability for these collections.

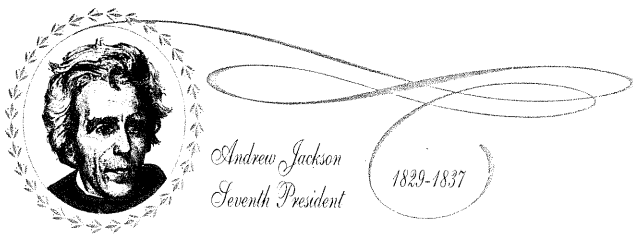
Bureau management recognizes its fiduciary and custodial responsibilities and has implemented effective internal control and security systems. To ensure that these systems are functioning properly, management has institutionalized an organizational focus on the safeguarding and accountability of all assets. This focus is reflected in the Bureau's organizational structure. Reporting to the Associate Director (Chief Financial Officer), who has oversight responsibility with respect to management controls, is the Office of Management Control. This office evaluates and monitors management control systems and maintains a comprehensive product accountability system. The Office of Security, which reports to the Associate Director (Management), plans, administers and monitors the Bureau's security programs. These programs include personnel, physical and operational security, as well as securities destruction. Through this structure, individual unit managers are held accountable and responsible for maintaining proper custody and safeguarding of all assets under their control. To further reinforce the internal control and security structure, a security and internal control element is included in each employee's performance plan. Employees are rated annually regarding their performance with respect to this element.

Summary of Office of Inspector General Audits

The Bureau began 2000 with four open audit recommendations issued by the Office of Inspector General (OIG). During 2000, the Bureau received 15 additional recommendations in five OIG audit reports. These recommendations resulted from audits requested by Bureau contracting officers, as well as audits planned by the OIG. Four recommendations pertained to contract issues. Eleven recommendations involved program issues concerning the processing of mutilated currency. Sixteen of the recommendations were implemented or addressed in 2000 resulting in monetary benefits of about \$267,000. The remaining recommendations will be addressed as appropriate.



Each year more than one-half million people enjoy the free tour of the Washington, DC facility.



Strategic Plan

The Bureau of Engraving and Printing updated its Strategic Plan this year. A copy of the updated Strategic Plan is available on the Internet at: www.moneyfactory.com. The overarching vision guiding the plan's development is for the Bureau to be "a world class securities printer providing the public and our customer agencies superior products through excellence in manufacturing and technological innovation." To achieve this vision, the Bureau has identified strategic goals that focus on investment in people and products. The updated plan lays out the broad goals and objectives that the Bureau intends to pursue over the next five years, and it includes a new goal to underscore the importance of developmental activities in counterfeit deterrence. The Bureau's five strategic goals are listed below.

Customer Satisfaction: Satisfy the Federal Reserve Board, the U.S. Postal Service and the public by providing responsive service and quality products.

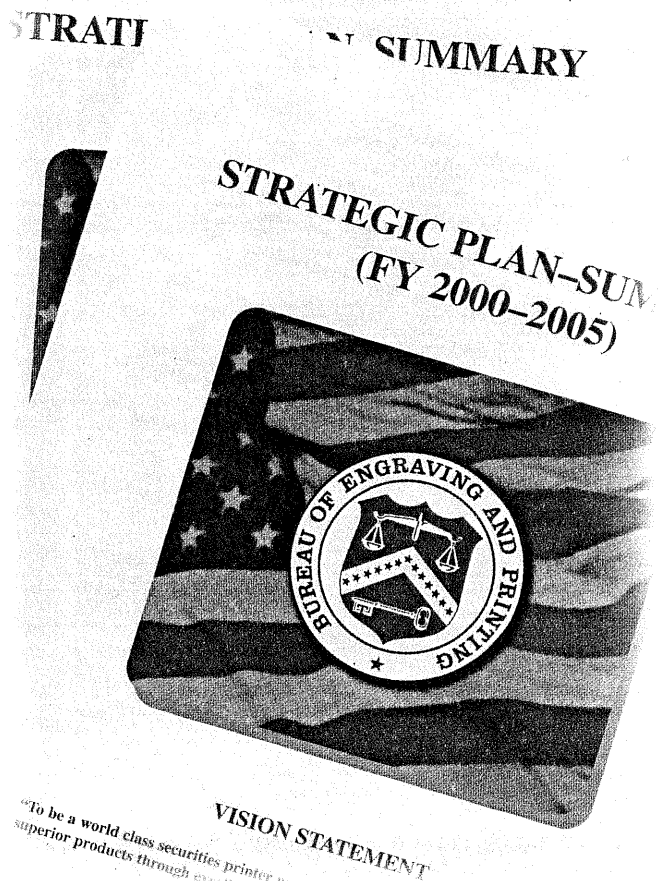
Quality Manufacturing: Manufacture state-of-the-art products of consistently high quality while improving productivity and cost performance.

Counterfeit Deterrence: Produce state-of-the-art notes that deter counterfeiting, contribute to public confidence, facilitate daily commerce and improve the efficiency of currency in circulation.

Security and Accountability: Ensure an environment of comprehensive security and accountability for the Bureau's personnel, facilities and products.

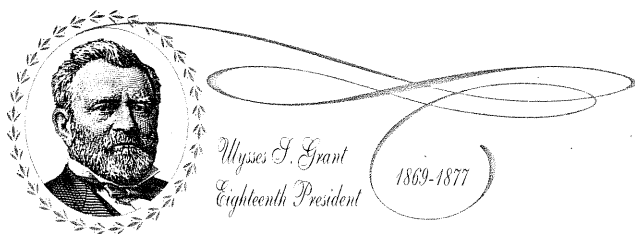
Resource Management: Manage the Bureau's resources to increase internal efficiency and effectiveness in support of the other strategic goals.

In support of these goals, the Bureau has established specific initiatives for 2001 that directly relate to the strategic goals. Initiatives for 2001 include: developing the next generation (NexGen) of currency designs incorporating advanced counterfeit deterrent features, investing in employees and facilities/equipment to ensure that the Bureau has the ability to meet customer expectations, and obtaining certification for the Bureau's currency quality management system under the internationally recognized International Organization for Standards (ISO) 9001 Standard.





Examiners (Lenore Ewing above) in the Office of Currency Standards reconstruct mutilated, burned or otherwise damaged currency as a public service. In 2000, the Bureau processed approximately 28 thousand cases, redeeming over \$87 million in damaged currency.



Customer Service Performance Measures

The Bureau provides a variety of goods and services to the Federal Reserve System and the U.S. Postal Service. The Bureau is the sole supplier of paper currency and a major supplier of postage stamps. The Bureau also prints a variety of products for other government agencies that require a high level of security during printing and processing, such as military identification cards, Presidential and pocket commissions and Immigration and Naturalization forms. In addition to the production of securities, a tour of the Bureau's Washington operations is provided to the public free of charge.

The Bureau is a "customer-driven" organization focused on providing outstanding customer service. The Bureau seeks to continually improve customer service by meeting regularly with its primary customers and seeking feedback on performance. Customers continue to identify product quality, timely service, and security as their most important customer satisfaction priorities. This feedback is used to identify changes to improve customer service and satisfaction. In 2000, the Bureau began to update and institutionalize its quality management system by seeking ISO 9001 certification.

Federal Reserve System

Customer service standards were reviewed in 2000. All currency deliveries met established dates. In accordance with established standards, all discrepancies in Bureau shipments or defects in product quality were acknowledged within 48 hours.

U.S. Postal Service

Based on customer feedback, customer service standards were reviewed in 2000. In accordance with the established standards, requests for changes in production scheduling were responded to within 24 hours. All 2000 postage stamp deliveries met established dates and discrepancies were resolved in a timely manner, as agreed upon.

Special Products

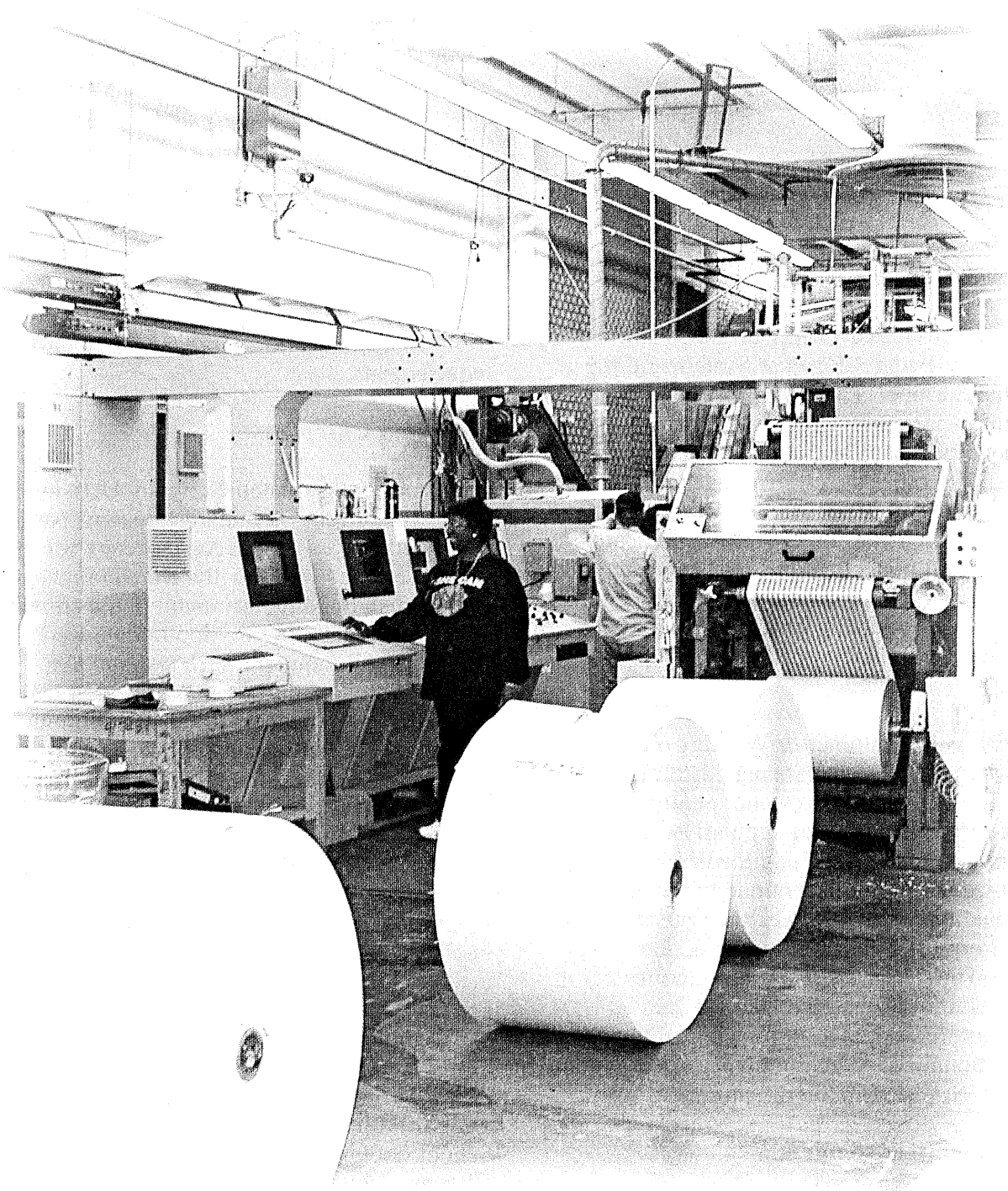
All inquiries were responded to within 24 hours, and all discrepancies were resolved in a timely manner. In addition, product security features were implemented in accordance with customer requirements.

Mutilated Currency

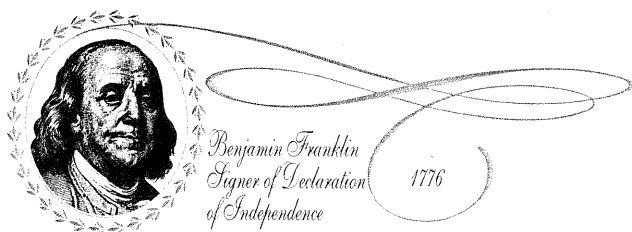
The Bureau's Mutilated Currency Division in the Office of Currency Standards redeems partially destroyed or badly damaged currency for the general public. In 2000, the Bureau processed approximately 28 thousand mutilated currency cases, redeeming \$87 million in damaged currency. All inquiries were responded to promptly and claims were processed or claimants notified in accordance with legal requirements and established customer service standards.

Public Tour

A free tour of the Bureau's currency production in Washington, DC is provided as a public service. As part of the expansion of the Western Currency Facility in Fort Worth, TX, provisions are being made to offer a public tour there. In 1997, the Bureau began renovating the tour in Washington, DC to improve customer satisfaction. In 1999, "The History of Money Wall" and the "Billion Dollar Showcase" were installed on the tour bridge and in the Visitor Center. In 2000, a new School Group Tour policy was implemented, allowing school groups to book tours in advance, making this an excellent vehicle for education/outreach. In the Visitors' Center, an improvement in Bureau product displays has begun, combining educational labels with a display of collectible Bureau products. To further improve service and the tour experience, a new ticket booth is being installed. As a result of these improvements, overall satisfaction with the tour continues to increase.



Securities Processor Supervisor, Mabel Hailes, utilizes state-of-the-art technology in processing postage stamps.



Program Performance Measures

The Bureau measures the efficiency and effectiveness of its overall organizational performance by using program performance measures. Standards are developed annually by senior executive staff based on past year's performance, contracted price factors, and anticipated productivity improvement. Actual performance against standard depends on the Bureau's ability to meet annual spoilage, efficiency and capacity utilization goals established for each product line. In addition to the existing Bureau-level performance measurement system, an office-level performance measurement system was implemented in 1995 under the umbrella of the Government Performance and Results Act (GPRA).

Bureau-level performance measures and associated results for 2000 are as follows:

	2000 <u>Standard</u>	2000 <u>Actual</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$24.29	\$22.65
2. Postage Stamps (Cost Per Thousand Stamps)		
100 Stamp Coil (PSA)	\$ 1.59	\$ 1.46
3. Federal Reserve Notes Delivered (Billions)	9.0	9.0
4. Postage Stamps Delivered (Billions)	15.0	17.5
5. Overall Productivity Change 1999 to 2000	-15%	-15.6%

5. a. Postage Productivity Change 1999 to 2000	-21%	-23.9%
b. Currency Productivity Change 1999 to 2000	-13%	-13.5%
6. Currency Spoilage	4.5%	3.9%
7. Postage Stamp Spoilage 100 Stamp Coil (PSA)	10.0%	8.8%

The Bureau does not receive Federal appropriations; operations at the Bureau are financed by a revolving fund that is reimbursed through product sales. Customer billings are the Bureau's only means of recovering the costs of operations and generating funds for capital investment. Billing rates are based on established standard costs, which are predicated on historical costs and factors such as changes in labor, material, and overhead costs. In order to ensure that sufficient cash is provided for operations, the Bureau must perform to these standard costs.

Currency (Cost Per Thousand Notes)	2000 <u>Standard</u>	2000 <u>Actual</u>
Federal Reserve Notes	\$24.29	\$22.65

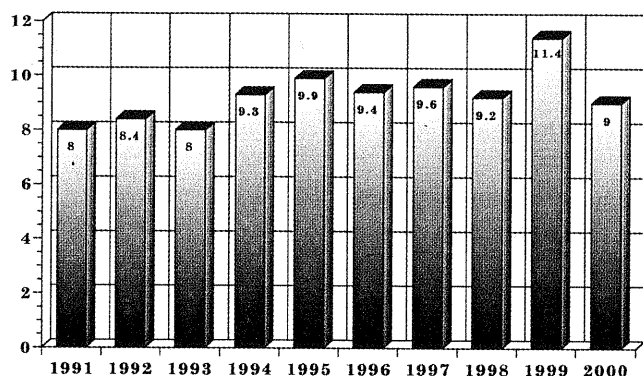
The actual production cost per thousand currency notes, which includes direct labor and materials and applied manufacturing overhead, was more than six percent below standard in 2000. This was primarily due to lower than anticipated spoilage, and an improvement in ink mileage due to the implementation of several employee suggestions. Under the Bureau's successful Employee Suggestion Program, a portion of the cost savings from these suggestions is shared with the suggester.

Postage (Cost Per Thousand Stamps)	2000 <u>Standard</u>	2000 <u>Actual</u>
100 Stamp Coil (PSA)	\$1.59	\$1.46

The actual production cost per thousand stamps for the 100 Stamp Coil with pressure-sensitive adhesive (PSA) was eight percent below standard. This was the result of reduced spoilage and a decrease in labor costs due to adjustments in staffing in the postage production areas.

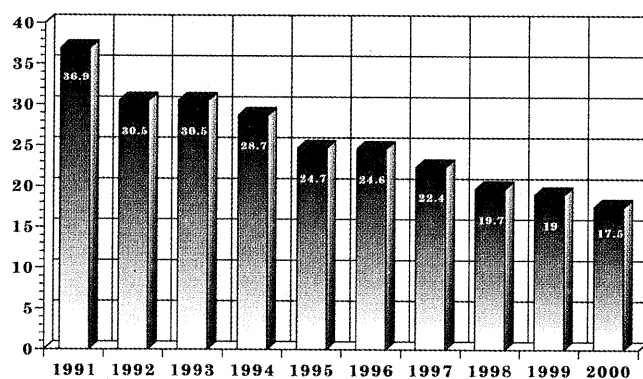
Currency Program

Billions of Notes



Postage Program

Billions of Stamps



	2000 Order	2000 Delivery
<u>Products Delivered to Customers</u>		
Federal Reserve Notes (Billions)	9.0	9.0
Postage Stamps (Billions)	15.0	17.5

In 2000, the Bureau delivered nine billion Federal Reserve Notes to the Federal Reserve System and 17.5 billion postage stamps to the U.S. Postal Service. Deliveries and billings are based on annual orders received from our customers. This year, as in most years, actual production did not equal deliveries because production of the subsequent year's order typically starts before the new fiscal year. In addition, the U.S. Postal Service ordered more stamps during the year.

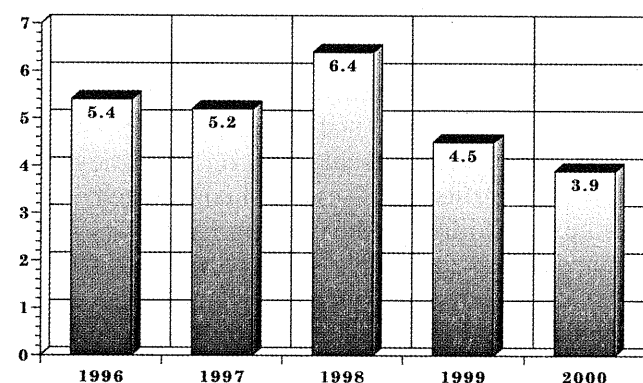
<u>Productivity Change</u>	2000 Standard	2000 Actual
Overall Productivity	-15%	-15.6%
Currency Productivity	-13%	-13.5%
Postage Productivity	-21%	-23.9%

Productivity is calculated using Bureau of Labor Statistics' methodology. In 2000, the Bureau's

overall productivity decreased by 15.6%. This decrease was due to the reduction in the postage stamp order and a drop in the production levels for currency in excess of two billion notes. The record production in 1999 was in preparation for Y2K. Postage productivity declined by 23.9%, and currency productivity decreased by 13.5%. The overall productivity decrease for the year approximated the increase in 1999. Over the long term, overall Bureau productivity is expected to continue its upward trend as investments in state-of-the-art technology provide for increased productivity.

Currency Spoilage

Percentage



	2000 Standard	2000 Actual
<u>Currency Spoilage</u>		
Federal Reserve Notes	4.5%	3.9%

Spoilage is an inherent result of any production process. The level of spoilage is an indicator of the overall effectiveness of the production process and quality of material inputs. Overall currency spoilage in 2000 was well below standard as a result of installing and operating newer, more efficient printing presses, as well as more experience in working with the electronic inspection equipment that was put in production in 1999.

	2000 Standard	2000 Actual
<u>Postage Stamp Spoilage</u>		
100 Stamp Coil (PSA)	10.0%	8.8%

Postage stamps are printed on web presses (roll fed). This printing process is much faster than sheet-fed printing, which is used for Federal Reserve Notes. As a result of this faster processing, spoilage rates for postage stamp

printing are higher when compared to currency printing. Spoilage on the 100 Stamp Coil (PSA) was below standard as a result of an unanticipated increase in the order for the 100 Stamp Coil (PSA), which allowed for longer printing runs.

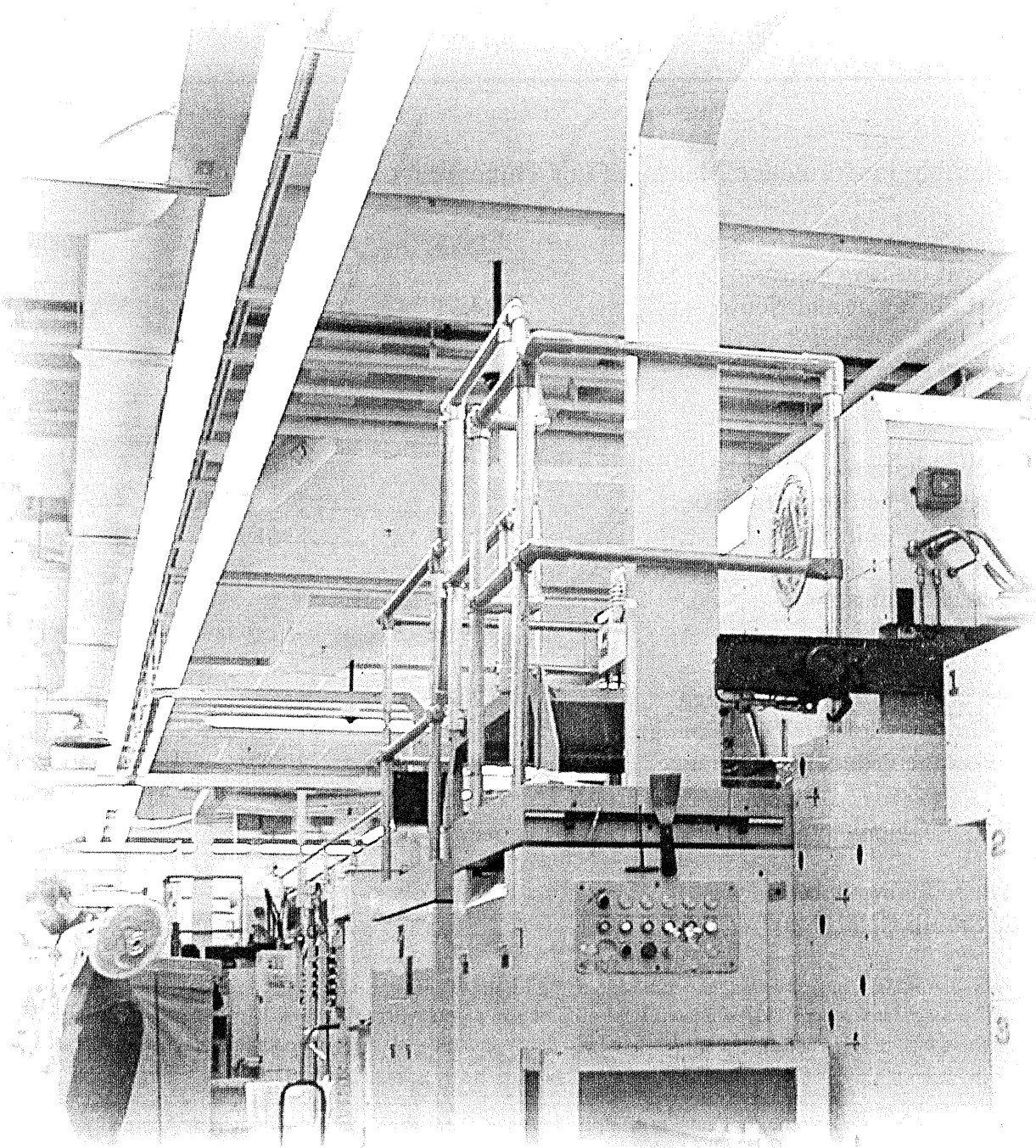
Longer runs allowed the printing press to operate uninterrupted for greater lengths of time, eliminating the spoilage that normally occurs with increased starts and stops of the equipment.

Comparable Performance Measures For Three Years

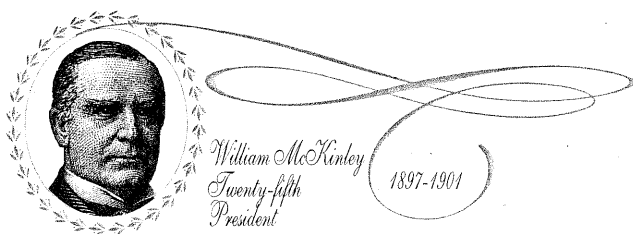
	<u>1998</u>	<u>1999</u>	<u>2000</u>
1. Federal Reserve Notes (Cost Per Thousand Notes)	\$24.34	\$25.87	\$22.65
2. Federal Reserve Notes Delivered (Billions)	9.2	11.4	9.0
3. Postage Stamps (Cost Per Thousand Stamps) 100 Stamp Coil (PSA)	\$1.39	\$1.31	\$1.46
4. Postage Stamps Delivered (Billions)	19.7	19.0	17.5
5. Overall Productivity Change	+1.5%	+15.9%	-15.6%
a. Currency Productivity Change	-2.4%	+12.89%	-13.5%
b. Postage Productivity Change	+13.8%	+28.07%	-23.9%
6. Currency Spoilage	6.4%	4.5%	3.9%
7. Postage Stamp Spoilage 100 Stamp Coil (PSA)	12.5%	9.2%	8.8%

For those performance measures that are comparable, the results of the past three years are presented. New cost and spoilage standards are developed annually for all products produced at the Bureau. Because performance to standard is a meaningful performance measure only in the applicable year, only actual manufacturing cost and spoilage data are presented here.

Manufacturing costs for currency continue to rise primarily due to the higher cost of counterfeit deterrent features (raw materials) and increased complexity in the manufacturing process. Productivity in the currency and postage programs has been significantly impacted by program volume over the past three years.



Over the past two years, four new intaglio printing presses have been installed in the Washington facility.



Management Discussion and Analysis

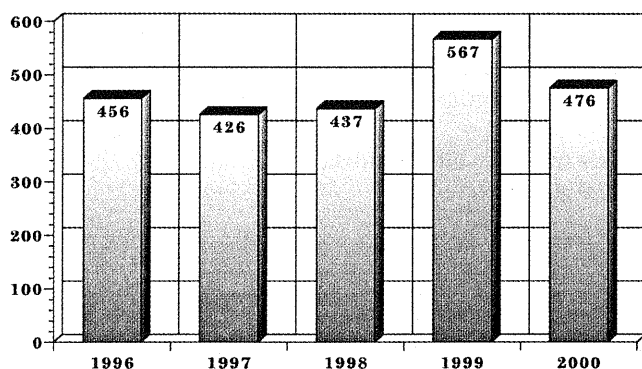
Summary

Revenue and the Excess of Income over Expenses decreased significantly in 2000 as currency requirements decreased from the record levels of 1999. The record demand in 1999 was due to preparations by the Federal Reserve Board for an anticipated increase in currency demand related to the year 2000.

This year, the Bureau continued to incorporate advanced counterfeit deterrent features in Federal Reserve Notes, introducing redesigned \$5 and \$10 notes. In addition, work continued on developing a design concept for the next generation (NexGen) of currency notes, which will include new counterfeit deterrent features.

Total Revenue

Millions of Dollars



Cash, Accounts Receivable and Cash Flow

Cash increased from \$180 million in 1999 to \$240 million in 2000, while accounts receivable decreased more than \$7 million. The increase in cash was primarily attributable to the Bureau's cost

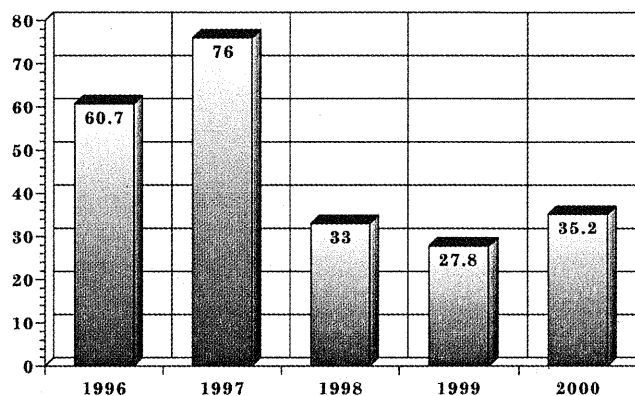
reduction efforts and lower than anticipated capital expenditures. Accounts receivable decreased at year-end due to a decrease in the September currency order/bill.

Inventories

Inventories decreased from \$77 million in 1999 to \$67 million in 2000. This was due to a decrease in currency paper inventories resulting from a decrease in the currency order.

Investment in Property and Equipment

Millions of Dollars



Property and Equipment

Net property and equipment decreased from \$334 million in 1999 to \$320 million in 2000. This decrease was the result of depreciation in excess of capital investment, primarily due to delays in anticipated capital expenditures. The level of capital expenditure is expected to increase as the Bureau invests in new currency printing and processing technology, the ongoing capital maintenance of the Washington facilities continues, and the expansion of the Western Currency Facility begins.

Other Assets

Other assets, primarily machinery repair parts and tools, decreased from \$25 million in 1999 to \$22 million in 2000 as a result of an increase in the allowance for obsolescence for repair parts. As the repair parts age, the allowance for obsolescence is increased.

Accounts Payable

Accounts payable decreased from \$17 million in 1999 to \$13 million in 2000 due to the reduction in the currency program and the related monthly invoices.

Accrued Current Liabilities

Accrued current liabilities increased from \$28 million in 1999 to \$33 million in 2000 due to payroll accruals and the timing of the pay period in relation to the end of the year.

Advances

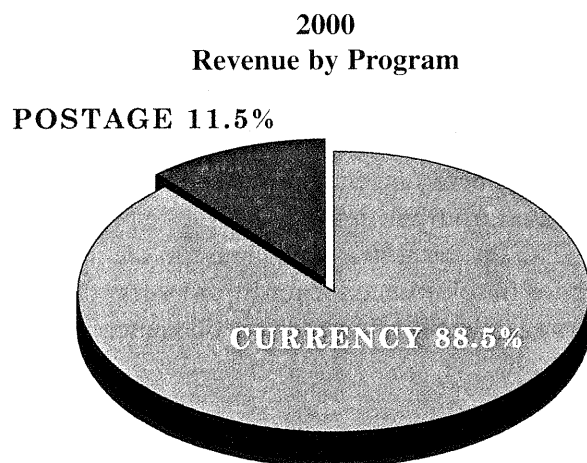
Advances to the Bureau remained relatively unchanged in 1999.

Deferred Revenue

Deferred revenue, which is revenue received prior to product delivery, decreased almost \$2 million in 2000. The remainder of the deferred revenue should be recognized in 2001.

Workers' Compensation Liabilities

The workers' compensation liability (nonactuarial) increased slightly in 2000, while the actuarial workers' compensation liability increased approximately \$11 million to \$50 million. The increase in the actuarial liability is due to changes in the model used by the Department of Labor to estimate this liability. The Department of Labor makes an actuarial calculation for the Department of Treasury as a whole, which is then allocated to Treasury bureaus based on past claims.



Revenue From Sales

Overall sales revenue decreased by \$91 million in 2000 to \$476 million. This was primarily due to a decrease in the currency order to more normal levels. The 1999 currency order was significantly higher than normal as part of the Federal Reserve's preparations for Y2K.

AVERAGE BILLING RATE FOR CURRENCY

<u>Fiscal Year</u>	<u>Rate Per Thousand Notes</u>	<u>Rate Per Single Note</u>
1991	\$29.00	\$0.029
1992	\$34.45	\$0.034
1993	\$40.28	\$0.040
1994	\$38.66	\$0.039
1995	\$37.25	\$0.037
1996	\$39.41	\$0.039
1997	\$37.40	\$0.037
1998	\$40.20	\$0.040
1999	\$44.36	\$0.044
2000	\$45.34	\$0.045

Cost of Goods Sold

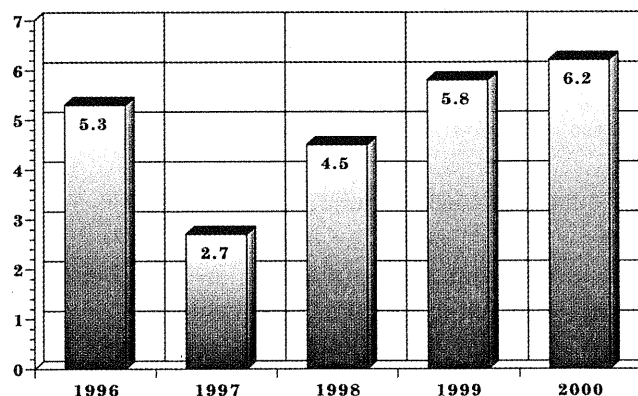
Cost of goods sold decreased from \$490 million in 1999 to \$417 million in 2000 due to a smaller currency program. As a percentage of sales revenue, cost of goods sold and gross margin were relatively unchanged.

Operating Costs

The Bureau's total operating costs increased by about \$4 million in 2000 primarily due to increased staffing and services related to information technology and Y2K. Research and development expenses increased slightly due to continuing research into currency counterfeit deterrence and developmental work on the next generation of currency designs.

Research and Development Costs

Millions of Dollars





**AND SUPPLEMENTAL
INFORMATION**

Report of Management on Internal Control Over Financial Reporting

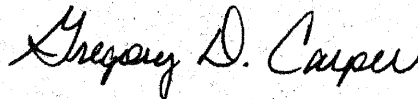
We, as members of the Bureau of Engraving and Printing, are responsible for maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to the Bureau's management regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Because of inherent limitations in any internal control, no matter how well designed, misstatements due to errors or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to the financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Bureau assessed its internal control as of September 30, 2000 based upon criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget Circular A-1213, "Management Accountability and Control," insofar as such criteria related to financial reporting. Based on this assessment, we assert that the Bureau maintained effective internal control over financial reporting as of September 30, 2000 based on the specified criteria.

November 17, 2000



Thomas A. Ferguson
Director



Gregory D. Carper
Associate Director
(Chief Financial Officer)

Report of Independent Auditors on the Internal Control Over Financial Reporting

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have examined management's assertion, included in the accompanying "Report of Management on Internal Control Over Financial Reporting," that the Bureau maintained effective internal control over financial reporting as of September 30, 2000, based on criteria established under the Federal Managers' Financial Integrity Act of 1982 and the Office of Management and Budget (OMB) Circular A-123 revised, "*Management Accountability and Control*." Management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of internal control based on our examination.

Our examination was made in accordance with the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the Bureau of Engraving and Printing, a bureau of the Department of the Treasury, maintained effective internal control over financial reporting as of September 30, 2000 is fairly stated, in all material respects, based upon criteria for effective internal control over financial reporting established under the Federal Managers' Financial Integrity Act of 1982, and the Office of Management and Budget Circular A-123 revised, "*Management Accountability and Control*," insofar as such criteria related to financial reporting.

November 17, 2000

Ernst & Young LLP

Report of Independent Auditors

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have audited the accompanying balance sheets of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of September 30, 2000 and 1999, and the related statements of operations and cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Bureau's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bureau of Engraving and Printing as of September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued a report as of and for the year ended September 30, 2000 dated November 17, 2000 on our consideration of the Bureau's internal control and its compliance with applicable laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

November 17, 2000

Ernst & Young LLP

**The Department of the Treasury
Bureau of Engraving and Printing**

Balance Sheets

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Assets:		
Current assets:		
Cash (Note 3)	\$240,469	\$179,899
Accounts receivable (Note 4)	43,651	51,103
Inventories (Note 5)	67,094	76,949
Prepaid expenses	3,048	2,928
Total current assets	354,262	310,879
Net property and equipment (Note 6)	320,301	333,576
Advances to other Federal agencies	15	728
Other assets, principally machinery repair parts and tools	22,402	24,675
Total Assets	\$696,980	\$669,858
Liabilities and equity:		
Current liabilities:		
Accounts payable	\$ 13,330	\$ 16,603
Accrued liabilities (Note 7)	32,708	27,570
Advances	2,204	1,589
Deferred revenue	1	1,957
Total current liabilities (Note 7)	48,243	47,719
Workers' compensation costs (Note 8)	5,236	5,058
Workers' compensation actuarial liability (Note 2)	49,819	38,818
Total liabilities	103,298	91,595
Commitments and contingencies (Note 11)		
Equity:		
Invested capital	32,435	32,435
Cumulative results of operations	561,247	545,828
Total equity	593,682	578,263
Total liabilities and equity	\$696,980	\$669,858

See accompanying notes.

**The Department of the Treasury
Bureau of Engraving and Printing**

Statements of Operations and Cumulative Results of Operations

	Year ended September 30	
	2000	1999
	<i>(In Thousands)</i>	
Revenue from sales (<i>Note 9</i>)	\$476,115	\$567,395
Cost of goods sold	416,753	489,507
Gross margin on operations	59,362	77,888
Operating costs:		
General and administrative	37,756	34,136
Research and development	6,187	5,771
	43,943	39,907
Excess of revenues over expenses resulting from operations	15,419	37,981
Cumulative results of operations at beginning of year	545,828	507,847
Cumulative results of operations at end of year	\$561,247	\$545,828

See accompanying notes.

**The Department of the Treasury
Bureau of Engraving and Printing**

Statements of Cash Flows

	Year ended September 30	
	2000	1999
	<i>(In Thousands)</i>	
Operating activities		
Excess of revenues over expenses	\$ 15,419	\$ 37,981
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	48,444	45,393
Changes in assets and liabilities:		
Accounts receivable	7,452	(9,684)
Inventories	9,855	(7,096)
Prepaid expenses	(120)	(1,470)
Other assets	2,273	1,479
Accounts payable	(3,273)	(2,334)
Accrued liabilities	5,316	3,534
Advances	615	(39)
Deferred revenue	(1,956)	(3,112)
Workers' compensation costs	11,001	3,540
Net cash provided by operating activities	95,026	68,192
Investing activities		
Additions to property and equipment	(35,169)	(27,760)
Advances to other Federal agencies	713	—
Net cash (used in) investing activities	(34,456)	(27,760)
Net decrease in cash	60,570	40,432
Cash at beginning of year	179,899	139,467
Cash at end of year	<u>\$240,469</u>	<u>\$179,899</u>

See accompanying notes.

The Department of the Treasury Bureau of Engraving and Printing

Notes to Financial Statements

1. Reporting Entity

Basis of Presentation

The Bureau of Engraving and Printing (Bureau), a component of the Department of the Treasury, is the U.S. Government's security printer. The Bureau designs and produces United States currency, postage stamps and other United States securities. The Bureau also advises and assists Federal agencies in the design and production of other government documents.

The Bureau operates under basic authorities conferred by the Act of July 11, 1862 (12 Stat. 532; also, 31 U.S.C. 5114) and other Acts. In accordance with the provisions of Public Law 81-656, effective August 4, 1950, the operations of the Bureau are financed by means of a revolving fund. This fund is reimbursed through billings to the Bureau's customers for products delivered. Public Law 95-81 authorized the Bureau to include in its product prices an amount to provide funding for the acquisition of capital equipment and future working capital.

The financial statements represent the consolidation of two Federal revolving funds. The majority of all amounts and activity (over 99%) is contained in the Bureau of Engraving and Printing Revolving Fund (20X4502), which finances Bureau operations. The other revolving fund, the Mutilated Currency Revolving Fund (20X6513.013), is used to redeem damaged paper currency received from the public.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Bureau of Engraving and Printing has historically prepared its financial statements in accordance with generally accepted accounting principles, based on accounting standards issued by the Financial Accounting Standards Board (FASB), the private-sector standards-setting body. In October 1999, the Federal Accounting Standards Advisory Board (FASAB) was designated by the American Institute of Certified Public Accountants (AICPA) as the standards-setting body for financial statements of federal government entities, with respect to the establishment of generally accepted accounting principles. FASAB has indicated, however, that financial statements prepared based upon accounting standards published by the FASB may also be regarded as in accordance with generally accepted accounting principles for those federal agencies, such as the Bureau of Engraving and Printing that have issued financial statements based upon FASB accounting standards in the past. Accordingly, consistent with historical reporting, the Bureau of Engraving and Printing financial statements are presented in accordance with accounting standards published by the FASB.

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Inventories

Inventories are valued at standard cost, except for finished goods inventories, which are valued at weighted average unit cost. Both methods approximate actual cost. Cost elements included in work-in-process and finished goods inventories are direct materials, direct labor, manufacturing overhead and manufacturing support.

Other Assets

Other assets consist principally of machinery repair parts, tools, and supplies which are used in the production of the Bureau's products. Other assets are valued at standard cost which approximates actual costs.

Property and Equipment

Property and equipment are recorded at cost. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The capitalization threshold is \$25,000.

The Bureau occupies and uses buildings and land owned by the U.S. Government. In accordance with the Act establishing the revolving fund, the Bureau is not charged for the use of the buildings or land, but is responsible for maintenance and repair of all buildings and land improvements. The land and building shell for the Bureau's Western Currency Facility were donated by the City of Fort Worth, Texas to the United States Government. See Note 6 for details.

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the following estimated useful lives:

Machinery and equipment	3-15 years
Building improvements	3-40 years
Information technology (IT) hardware and software	5 years
Office machines	5-10 years
Furniture and fixtures	5-10 years
Motor vehicles	3-9 years

Employee Retirement Plans

Bureau employees participate in the contributory Civil Service Retirement System (CSRS) or Federal Employees' Retirement System (FERS), to which the Bureau and employees make contributions according to plan requirements. Employer contributions to the retirement plans for 2000 and 1999 were \$13.5 million and \$12.6 million, respectively. The cost of providing the CSRS benefit is more than the amounts contributed by the Bureau and the employees to the Office of Personnel Management (OPM). The full cost of providing pension benefits, including the cost financed by OPM, which is not included in the Bureau's Statement of Operations, totaled \$22.5 million and \$21.4 million in 2000 and 1999, respectively. The cost of providing the FERS basic benefit, as provided by OPM, is equal to the amounts contributed by OPM, the Bureau and its employees (i.e., the plan is fully funded).

Consistent with reporting under multi-employer pension plans, the Bureau does not report CSRS and FERS assets, accumulated plan benefits, or future liabilities, if any, applicable to its employees. This data is reported for plan participants by OPM.

Postretirement Benefits Other than Pensions

Postretirement benefits for former Bureau employees, specifically health care costs, and life insurance, are administered and paid by OPM through appropriations received from the United States Government. The Bureau does not reimburse OPM for these payments. OPM paid such retirement benefit costs totaling \$6.4 million and \$6.2 million, as calculated by OPM, for the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) programs in 2000 and 1999, respectively. These costs are not included in the Bureau's Statements of Operations.

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Consistent with reporting under a multi-employer plan arrangement, no accrued liability is required to be recorded by the Bureau for recognition of postretirement benefits other than pensions.

Workers' Compensation Costs

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for the Bureau's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Bureau. These future workers' compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. In 2000 and 1999, the liability was determined using the paid losses extrapolation method calculated over the next 37-year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value using the discount rate of 6.28% in year one, 6.30% in year two, and thereafter for 2000; and 5.50% in year one, 5.50% in year two, 5.55% in year three, 5.60% in year four, and thereafter for 1999. In 2000 and 1999, a wage inflation factor and medical inflation factor were applied to the calculation of projected future payments. Based on information provided by the DOL, the Department of the Treasury allocated the overall liability to Treasury components based on past claims paid. The Bureau's estimated liability for workers' compensation costs as of September 30, 2000 and 1999 was \$49.8 million and \$38.8 million, respectively.

Annual, Sick and Other Leave

Annual leave is accrued as a liability when earned, and the accrual is reduced as leave is taken. The balance in this accrued liability account reflects current pay rates.

Sick leave and other types of nonvested leave are expensed as the leave is taken.

Revenue Recognition

Revenue from sales to the Federal Reserve System and United States Postal Service is recognized when finished goods are delivered to the on-site Federal Reserve Depository Vaults or United States Postal Service Vault, and they are released for shipment. Finished goods are released for shipment in accordance with customer requirements.

Reclassification of Prior Year Balances

Certain 1999 balances have been reclassified to conform to the 2000 presentation.

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

3. Cash

The year-end cash balances are as follows:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Bureau of Engraving and Printing		
Revolving Fund (20X4502)	\$238,236	\$178,298
Mutilated Currency Revolving Fund (20X6513.013)	2,204	1,589
Other	29	12
Total	\$240,469	\$179,899

4. Accounts Receivable

Accounts receivable consist of the following:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Billed	\$ 39,321	\$ 46,862
Unbilled	4,330	4,241
Total	\$ 43,651	\$ 51,103

The Bureau had intragovernmental accounts receivable of \$3.7 million and \$4.4 million as of September 30, 2000 and 1999, respectively. Of these amounts, \$3.6 million and \$4.2 million were unbilled. Historical accounts receivable loss experience does not warrant the establishment of an allowance for uncollectible accounts.

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

5. Inventories

Inventories consist of the following:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Raw materials and supplies	\$ 45,479	\$ 52,894
Work-in-process	15,046	15,874
Finished goods – regular currency	1,122	1,798
Finished goods – postage stamps and special products	1,349	3,843
Finished goods – uncut currency	4,098	2,540
Total	<u>\$ 67,094</u>	<u>\$ 76,949</u>

6. Property and Equipment

Property and equipment consists of the following:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Machinery and equipment	\$457,064	\$454,988
Building and land improvements	142,699	137,458
IT hardware and software	15,618	12,431
Office machines	1,495	7,191
Furniture and fixtures	3,108	2,980
Donated assets – art work	125	125
Motor vehicles	336	252
	<u>620,445</u>	<u>615,425</u>
Less accumulated depreciation	309,332	287,721
	<u>311,113</u>	<u>327,704</u>
Construction-in-progress	9,188	5,872
Net property and equipment	<u>\$320,301</u>	<u>\$333,576</u>

Fully depreciated assets in use as of September 30, 2000 and 1999, were \$90 million and \$99 million, respectively.

The Department of the Treasury Bureau of Engraving and Printing

Notes to Financial Statements (continued)

6. Net Property and Equipment (continued)

The Bureau occupies and uses buildings and land owned by the U.S. Government. The land and building shell for the Fort Worth, Texas facility were donated by the City of Fort Worth to the U.S. Government in 1987, and title is held by the U.S. Government. At the time of donation, the land had an appraised value of \$1.5 million and the building shell cost was \$5.6 million. In accordance with the provisions of Public Law 81-656, Bureau financial statements include only the costs to complete the facility.

7. Current Liabilities

All current liabilities are funded and consist of the following:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Intragovernmental	\$ 6,837	\$ 9,447
Other	41,406	38,272
Total	<u>\$48,243</u>	<u>\$47,719</u>

Accrued current liabilities consist of the following:

	September 30	
	2000	1999
	<i>(In Thousands)</i>	
Payroll (Including Awards)	\$18,547	\$12,970
Annual Leave	9,112	8,664
Workers' compensation	4,047	4,645
Other	1,002	1,291
Total	<u>\$32,708</u>	<u>\$27,570</u>

8. Noncurrent Liabilities

The Bureau has recorded a liability for claims incurred and paid to claimants by the Department of Labor (DOL) as of September 30, 2000 and 1999, but not yet reimbursed to DOL by the Bureau. Such amounts, associated with workers' compensation, which will be paid in fiscal years 2002 and 2001, are approximately \$5.2 million and \$5.1 million, respectively (See Note 2).

**The Department of the Treasury
Bureau of Engraving and Printing**

Notes to Financial Statements (continued)

9. Revenue from Sales

Revenues are derived from the following principal customers:

	2000	September 30		1999
		(In Thousands)		
Federal Reserve System	\$409,399	86.0%	\$501,075	88.3%
United States Postal Service	54,790	11.5%	58,649	10.3%
Other	11,926	2.5%	7,671	1.4%
Total	<u>\$476,115</u>	<u>100.0%</u>	<u>\$567,395</u>	<u>100.0%</u>

10. Principal Suppliers

The Bureau is dependent upon sole suppliers for distinctive currency paper and currency paper fibers.

11. Commitments and Contingencies

The Bureau is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Bureau are paid by the Department of the Treasury Judgment Fund. There were no payouts from the Judgment Fund in fiscal years 2000 and 1999. In employee-related cases, the Bureau's liability is limited to the employer's required contribution to the retirement and Medicare funds. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the financial statements.

The Bureau does not carry commercial insurance on its physical assets because by law the Federal Government is self-insured.

The Bureau has not entered into any long-term leasing agreements.

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

Director of the Bureau of Engraving and Printing
Department of the Treasury

We have audited the financial statements of the Bureau of Engraving and Printing (Bureau), a bureau of the Department of the Treasury, as of and for the year ended September 30, 2000, and have issued our report thereon dated November 17, 2000. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, as applicable.

Compliance

The management of the Bureau is responsible for complying with laws and regulations applicable to the Bureau. As part of obtaining reasonable assurance about whether the Bureau's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, as applicable. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, as applicable.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bureau's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Bureau's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving internal control over financial reporting that we have reported to management of the Bureau in a separate letter dated November 17, 2000.

In addition, with respect to internal controls related to performance measures reported in the Chief Financial Officers Annual Report we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02, as applicable. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of the Bureau, OMB, Congress, and the Department of Treasury's Office of Inspector General, and is not intended to be and should not be used by anyone other than these specified parties.

November 17, 2000

Ernst + Young LLP

Report of Independent Auditors on Other Financial Information

Director of the Bureau of Engraving and Printing
Department of the Treasury

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information in the Statements of Operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

November 17, 2000

Ernst & Young LLP

**The Department of the Treasury
Bureau of Engraving and Printing**

**Statements of Operations
(By Product Line)
(Unaudited)**

	Year ended September 30	
	2000	1999
	<i>(In Thousands)</i>	
Currency program revenues	\$421,325	\$508,746
Cost of goods sold	367,426	436,550
Gross margin on operations	53,899	72,196
Operating costs:		
General and administrative	33,731	30,893
Research and development	6,187	5,771
Restructuring charge	—	—
Currency-excess of revenues over expenses	13,981	35,532
Postage programs revenue	54,790	58,649
Cost of goods sold	49,327	52,957
Gross margin on operations	5,463	5,692
Operating costs:		
General and administrative	4,025	3,243
Postage-excess of revenues over expenses	1,438	2,449
Net results of operations	\$ 15,419	\$ 37,981

Note:

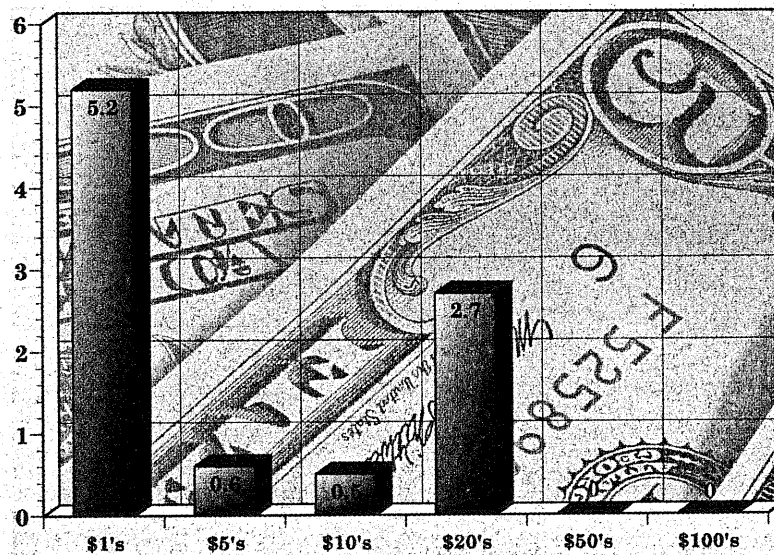
Revenues and expenses for the currency product line include small amounts related to the production and sale of miscellaneous special products and services. Support, a component of cost of goods sold, and general administrative expenses are allocated to the currency and postage product lines based upon the currency and postage production orders and manufacturing costs estimated at the beginning of the year. The proportion used in establishing the billing rates for these products was also used to prepare this statement, even though there was a 1.5 billion stamp increase in the order from the U.S. Postal Service during fiscal year 2000.

PRODUCT LINE STATEMENT OF OPERATIONS

Revenue from the currency program in 2000 fell significantly as the currency order decreased by over 20%. The currency order in 1999 was much higher than normal due to preparations for the Year 2000. Revenues from the postage program also decreased due to a reduction in program volume. As a result of superior performance in the manufacturing areas and cost containment efforts through out the Bureau, the currency and postage programs both had favorable operating results for the year.

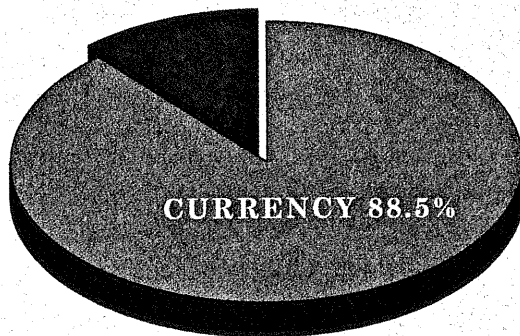
2000 Deliveries by Denomination

Billions of Notes



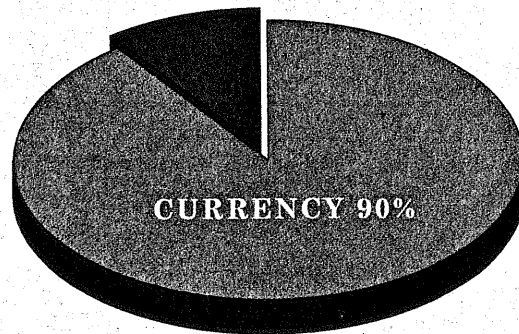
2000 Revenue by Program

POSTAGE 11.5%



1999 Revenue by Program

POSTAGE 10%



PROMPT PAYMENT

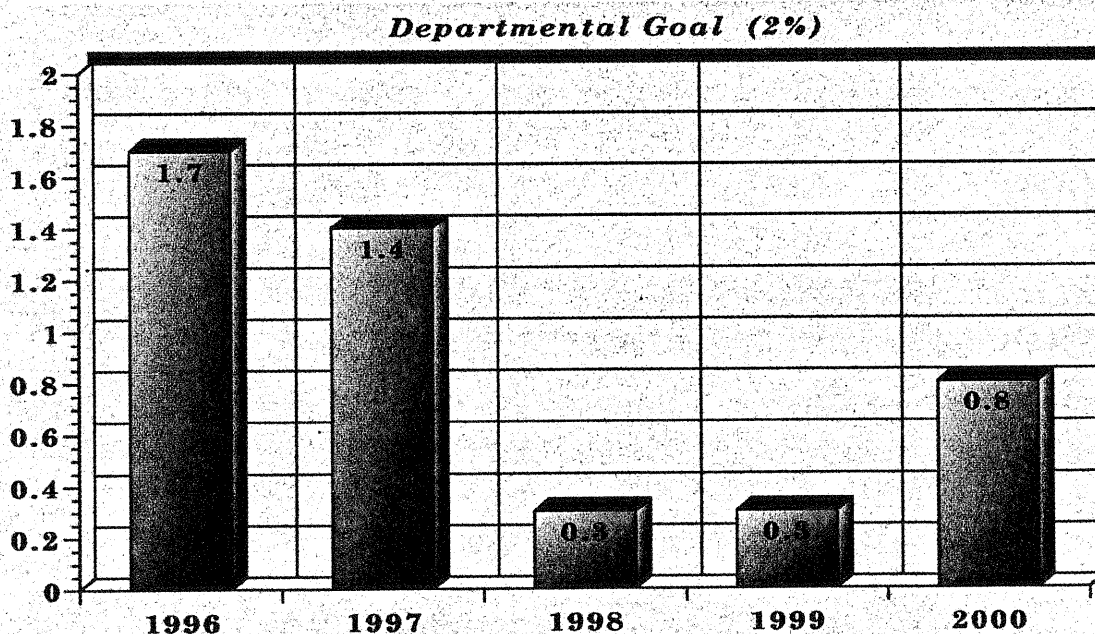
To ensure that Federal agencies pay invoices in a timely manner, Congress passed the Prompt Payment Act and the Office of Management and Budget (OMB) issued Circular A-125. Generally, the Act requires payment within 30 days from the later of either the receipt of a proper invoice or acceptance of the goods/services. If this time frame is not met, an interest penalty must be paid to the vendor. Within the Department of the Treasury, the standard for the late payment rate is that no more than two percent of the invoices subject to prompt payment shall be paid late (at least 98 percent paid within 30 days).

The Bureau's prompt payment performance for the past three years is presented below. As the percentages indicate, the Bureau has continued to exceed the Departmental standard for late payments. In 2000, the late payment rate increased somewhat due to personnel changes at the management, supervisory, and technician levels. Additionally, there were fewer technicians processing approximately the same number of invoices as the previous year. Nonetheless, the Bureau's superlative late payment rate remained more than 50% below the Departmental standard.

	<u>1998</u>	<u>1999</u>	<u>2000</u>
1. Number of Invoices Paid Late	30	27	70
2. Interest Penalties Paid	\$369	\$291	\$1,921
3. Percentage of Invoices Paid Early	2.0%	4.0%	2.0%
4. Percentage of Invoices Paid Late	0.3%	0.3%	0.8%

Late Payment Occurrence Rate

Percentage Paid Late



SUPPLEMENTAL INFORMATION

CAPACITY UTILIZATION

1. Machine Capacity Utilization*	<u>1998</u>	<u>1999</u>	<u>2000</u>
Currency Program Washington			
Printing	71%	100%	72%
Processing	64%	100%	67%
Currency Program Fort Worth			
a. Printing	73%	100%	71%
b. Processing	68%	100%	69%
Postage Program			
a. Printing	45%	40%	37%
b. Processing	24%	29%	29%

* All machine capacity utilization percentages are based on a three-shift, five-day workweek.

2. Machine Capacity Utilization	<u>1998</u>	<u>1999</u>	<u>2000</u>
Currency Program Washington			
a. Printing	71%	100%	72%
b. Processing	64%	100%	67%
Currency Program Fort Worth			
a. Printing	73%	100%	71%
b. Processing	68%	100%	69%

After record setting currency production volume in 1999, the Bureau returned to more normal production levels in 2000, producing just over nine billion currency notes. This resulted in lower capacity utilization. The lower currency order in 2000 enabled the Bureau to begin a number of equipment and facility upgrade projects. Currency capacity utilization is expected to decrease next year as a result of a smaller currency order.

3. Machine Capacity Utilization	<u>1998</u>	<u>1999</u>	<u>2000</u>
Postage Program			
a. Printing	45%	40%	37%
b. Processing	24%	29%	29%

Machine capacity utilization in the postage program has trended down as a result of continued reductions in the annual postage stamp order. As postage stamp requirements have decreased, staffing in the postage program has been reduced through cross training and retirements. Consequently, machine capacity now significantly exceeds production capacity due to the inability to staff all the postage equipment for three shifts, five days a week. Printing and processing capacity utilization in the postage program is expected to continue to decrease next year due to lower postage stamp requirements.